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TAGS: [ECON](#) [EWWT](#) [ELNT](#) [OTRA](#) [PGOV](#) [PREL](#) [SOCI](#) [VM](#)  
SUBJECT: SOUTHERN SHIPBUILDING SLOWLY TRANSITIONS FROM STATE-OWNED TO  
PRIVATE YARDS

REF: HCMC 61

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**11.** (SBU) Summary: The global economic downturn has hit southern Vietnam's state-owned ship yards hard, reducing order books to a handful of five to 20,000 dead weight ton vessels only suitable for domestic or regional work. Conversely, private sector shipbuilders, both domestic and international, have leveraged state of the art technology and skilled work forces to establish thriving international niche construction and repair markets. During their May 5 to 8 visit, a National Defense University's Industrial College of the Armed Forces delegation heard time and again that outdated technology, competing government priorities, and state-owned shipbuilder Vinashin's allocation of new ship orders to northern shipyards are all contributing to a slow shift from public to private shipbuilding in southern Vietnam.  
End Summary.

Nothing Vietnamese but the Labor

**12.** (SBU) The Vinashin shipyards in HCMC visited by the National Defense University's Industrial College of the Armed Forces (ICAF) delegation were low capacity, low-value added operations, stitching together low tonnage vessels from imported inputs. Director of the Saigon Ship Marine shipyard Mr. Le Hai Lam said the yard built two ships last year, but because of cancellations delivered neither. The percentage of domestic content in new ships averages 20 percent, Mr. Lam said, although the Japanese client for one of last year's ships provided 100 percent of the ship's content, requiring the yard only for labor. At the nearby Saigon Shipbuilding Enterprise, Vice General Director Mr. Le Hong Quang quoted a similar average of 30 percent domestic content for new ship construction, with electronics, furnishings, and equipment all being sourced overseas, and the steel plate imported from China.

**13.** (SBU) Neither shipyard is equipped to build vessels over 15,000 dead weight tons (DWT) according to Mr. Lam and Mr. Quang, a weight category that appears to typify Vinashin's current output. Vice Chairman of the Vietnam Shipbuilding Industry Association (VSIA) Mr. Hoang Hung told ICAF in a separate meeting that the majority of Vinashin's international orders are for vessels between five and 20,000 DWT. Neither of the HCMC Vinashin shipyards visited by ICAF had orders for new ships beyond those that will be completed in 2010. Given the lack of orders for new ships, both shipyards' representatives told ICAF that repair work is what is keeping them afloat financially.

## With New Orders Down, State Shipyards Compete for Repairs

14. (SBU) According to Mr. Lam of Saigon Ship Marine, Vinashin headquarters in Hanoi solicits shipbuilding contracts from international customers, and then assigns the projects to individual shipyards. As northern shipyards have better technology, according to both Mr. Lam and Mr. Hung of the VSIA, they receive more orders than southern yards. Individual Vinashin shipyards are free to solicit repair work, however, and competition for ship repair contracts has become fierce, according to Mr. Lam, as ship owners shop around for the best deals. Touring the repair sheds of Saigon Ship Marine, ICAF members commented on the low level of repair work they observed, consisting primarily of hull refurbishing and engine replacement, with no capacity to rebuild engines or upgrade electrical systems.

## Province Opposes State-Owned Shipyard on Environmental Grounds

15. (SBU) Conflicting central government and local priorities are hampering expansion of the state-owned shipbuilding sector in southern provinces. High-ranking Vinashin officials such as Mr. Do Thanh Hung, a member of the Vinashin Business Group's Board of Directors, told ICAF that realizing Vinashin's strategic plan to become the world's fourth largest shipbuilder by 2020 will require building new and upgrading existing shipyards. Yet Chairman of the Ba Ria Vung Tau (BRVT) Provincial People's Committee Mr. Tran Minh Sanh, held a more circumspect view of Vinashin's ambitions. Although a complex of state of the art port facilities under construction in the province will render BRVT Vietnam's shipping gateway to the world (Reftel), Mr. Sanh told ICAF that "shipbuilding was not a major part of the province's development plan." He noted repeatedly that the province had not agreed to Hanoi's proposal to locate a state-owned shipyard in the province because of concerns that the project would not operate in an "environmentally sustainable manner."

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## Private Sector Shipyard Giving Overflow Work Away

16. (SBU) Majority owned by private Vietnamese investors, the congested but well-equipped Vung Tau Repair Shipyard 90 kilometers from HCMC is booked solid for months in advance with ship repair contracts. As Deputy General Director Mr. Luu Phuong led the ICAF delegation through the overcrowded facility, he pointed out numerous specialty lathes, borers and other state of the art repair equipment "found at no other shipyard in Vietnam." He noted that because this equipment allows him to rebuild engines as well as service propeller shafts on specialty vessels such as oil rig service ships, his is the repair shipyard of choice for international ship owners. He told ICAF he typically refers his overflow of nine to ten major repair jobs a year to a military shipyard in HCMC. Major expansion plans are on hold, however, because of difficulties in obtaining capital.

## International Sector Building Most Advanced Boats in Vietnam

17. (SBU) Open only three months, Australian shipbuilder Strategic Marine has developed the workplace culture, highly-skilled labor force and state of the art equipment that allow it to exploit highly profitable niche markets. The expat General Manager described the above average wages, emphasis on safety (each of the 2,500 workers receives first aid training), and numerous perquisites, including free health care for workers' families that make Strategic Marine the shipbuilding "employer of choice". Bar codes on workers' badges specify skill sets, be they project manager, naval architect or aluminum welder, many of whom Strategic Marine has sent for training overseas. Unaffected by the economic downturn, the shipyard is constructing 40 specialized high speed aluminum craft for military or off shore oil support use in Singapore, Nigeria, and New Zealand, and has orders for dozens more.

¶8. (SBU) ICAF faculty ended their visit with mixed views on both Vinashin's accomplishments to date and the firm's future prospects. They questioned the viability of Vinashin's stated goal of becoming the world's fourth largest shipbuilder by 2020.

In fact, they attributed Vinashin's recent rapid growth more to its coincidence with a global shortage of shipbuilding capacity than to any inherent competitive advantage. (Note: Vinashin enjoyed averaged annual revenue increases of 140 percent from 2003-2007, which catapulted Vietnam from 14th to 7th among the world's shipbuilders. End Note.) Faced with a five year wait for a Korean vessel back in 2006, shippers contracted with marginal shipyards they normally wouldn't have dealt with. Now that the boom is over, Vinashin appears stuck in a default niche of constructing five to 20,000 DWT vessels which major international shipbuilders "no longer consider worth their while", said one ICAF faculty member.

Comment:

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¶9. (SBU) The contrasts between that state owned and private shipyards visited by ICAF are striking. Importing virtually all inputs, from propellers to fog horns, while contributing primarily labor, Vinashin's HCMC shipyards resemble Vietnam's low-value added garment industry. Conversely, Strategic Marine's production of customized aluminum vessels, individually designed for various international clients, resembles custom manufacturing more than traditional shipbuilding. Shipbuilding has a future in southern Vietnam, but it more likely lies with the innovative private sector than with the under-capitalized and centrally-directed Vinashin plants. End comment.

¶10. (U) This cable was coordinated with Embassy Hanoi.  
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